

# PUBLIC EMPLOYEES' RETIREMENT FUND INDIANA

## MEMBER UPDATE APRIL 2002

### MESSAGE FROM THE EXECUTIVE DIRECTOR

---

**E. WILLIAM BUTLER**



*"While we don't like to suffer losses such as this [Enron], it is important that you understand that no pension benefits will be affected by this event."*

Recently, Congress enacted a far-reaching measure that has created significant new options for members of corporate and public retirement plans, like PERF. The Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) increases the portability of retirement accounts and gives the account holder more flexibility in making retirement and investment decisions. The Indiana General Assembly has enacted a bill to harmonize Indiana law with the new federal law and take full advantage of its provisions. We have included a discussion of this new law in this newsletter.

A word about Enron. We have all heard about the Enron problem and the company's bankruptcy. Although the Fund held some Enron securities in its portfolios and felt the loss in value as the company went into bankruptcy, the amount of the loss was only a very small portion of the Fund's overall portfolio. While we don't like to suffer losses such as this, it is important that you understand that no pension benefits will be affected by this event. In fact, something like the Enron problem demonstrates the wisdom of diversifying the portfolio. Our other investments held up strongly and brought the Fund up to market or better in returns, thus offsetting the negative effect of Enron.

As you know by now, the legislature passed a law last year that allows members to change their investment choices in their Annuity Savings Accounts every quarter, which will allow people to adjust their investment plans on a more timely basis. Previously, a change could be made only once in any 12-month period. We think this is another step in the modernization of the Fund and our effort to bring a full set of retirement services to our members. The Board is very interested in improving this service and will continue to work to make it better.

We hope you enjoy this issue of the quarterly newsletter. It's nice to be able to report good news like new federal tax law and changes to the Indiana Code. We think the news will continue to be good and that your pension fund will continue to improve.

## PERF REPORTS LOSSES FROM ENRON

*This situation has no effect on the Fund's ability to pay benefits now or in the future. The promise of your pension benefits is as strong now as it ever has been.*

On December 2, 2001, the Enron Corporation filed for Chapter 11 bankruptcy protection. Across the country, pension funds like the Public Employees' Retirement Fund have reported significant losses as a result of Enron's financial collapse. All in all, public funds across the United States have reported combined losses of more than \$1.5 billion.

As disturbing as that number may sound, it is important to look at it in a larger perspective. As of the October 2001, public fund assets in the United States numbered approximately \$2.2 **trillion**. Consequently, Enron losses represent less than 0.7 % of total public pension fund assets. On a percentage basis, PERF lost even less than that to Enron investments.

Institutional investors like PERF will, unfortunately, experience losses like this from time to time. However, the way that PERF protects you from a situation like this is through diversification of the investment portfolio. The Fund's assets are spread over a wide variety of asset classes, which protect it, in the long term, from declines in the market and random occurrences like the problems resulting from Enron.

### ***THE "PENSION PROMISE"***

Although the investment loss to Enron is unfortunate, it has created an excellent opportunity to consider the positive attributes of a retirement benefit like that offered by PERF.

We have received many calls from concerned members regarding the security of their pension benefits following the Enron collapse. Your retirement assets are just as safe today as they were prior to Enron's financial problems being announced. This situation has no effect on the Fund's ability to pay benefits now or in the future. The promise of your pension benefits is as strong now as it ever has been.

The PERF pension is a promise backed by state law. The law states that if you work in a PERF-covered position for at least ten years, the State of Indiana guarantees a pension in the form of a defined benefit retirement plan. The way your retirement benefit is calculated is spelled out in state law and is not adversely affected by fluctuations in the market or investment losses like these.

#### ***Quick Fact***

The Indiana Public Employees' Retirement Fund ranks as the 161<sup>st</sup> largest pension fund in the world among all public and corporate funds.

Pension & Investments Magazine,  
December 24, 2001

## PURCHASE OF MILITARY SERVICE CREDIT

Recently, a number of our members have expressed concerns about the cost of purchasing prior military service with PERF. Indiana Code 5-10.3-7-5 states that the purchase price will be based on the following:

- *The member's salary at the time the member actually makes a contribution towards the purchase of the service credit.*
- *The number of years of service credit the member intends to purchase.*
- *A rate determined by the actuary of the fund, which is based on the age of the member at the time they actually make a contribution towards the purchase of the service credit.*

It is the third of those items that makes the purchase price increase dramatically as your years of service increase, as you get older, and the length of time you have until retirement decreases. The purchase price increases because as you get older the "value" that service will have also increases. This is because the longer PERF has your money, the longer we can invest it, add value to that money, and so the less we need to charge you for the purchase of additional service.

The method of calculating the cost of the purchase is based on the difference between the value of the benefits you have earned before and after the purchase of the service. This method discourages purchasing military service that would qualify you for one of the unreduced benefit commencement dates (Age 65 with 10 years of service, age 60 with 15 years of service, or the Rule of 85).

So, when is the best time to purchase your military service? If you are not eligible to retire, then the sooner the better after you qualify. However, if you are expecting a salary increase, then it would be to your advantage to submit your application before you receive the increase, as the purchase is tied directly to your compensation at the time you choose to make the purchase. Remember you must have a minimum of one year of PERF-covered employment before you can apply to purchase military service. Also remember, if you are planning on purchasing your service on the 5-year installment plan, it must be paid for in-full before you can use it for retirement.

*The next page has two examples that attempt to show you the impact of timing in the purchase of additional military service credit.*

### ***A Quick Reminder***

***Please keep your name and address current with our office.*** Change of Name and/or Address Forms are readily accessible from the PERF web site at [www.perf.in.gov](http://www.perf.in.gov), or from your employer. After 60-90 days, the post office will longer forward mail to your new address and we may lose touch with you to mail updates like these and your quarterly statement of account.

## PURCHASE OF MILITARY SERVICE CREDIT

The following are two examples illustrating how age, salary and service affect the cost of purchasing military service credit.

### Example 1

Let's suppose a member is age 57 with 27 years of PERF-covered service, currently earns \$50,000 in salary, and wishes to buy 1- $\frac{3}{4}$  years of military service credit.

- Since the member is not yet 60 years old and the sum of his age and service is only 84, this member is not yet eligible to retire under any of PERF's unreduced benefit circumstances. The temptation is to purchase the 1- $\frac{3}{4}$  years of military service (which would then qualify the member for the Rule of 85) and immediately with unreduced benefits.
- Prior to the purchase, the member was not eligible to retire with unreduced benefits (because the member was not eligible for the Rule of 85). If the member wished to retire immediately prior to the purchase, his benefit would be only 74% of the benefits earned. Let's say the value of this benefit is \$122,500.
- After the purchase, the value of the benefit increases significantly because now the member is able to retire immediately and receive 100% of earned benefits without any reduction for early commencement of benefits. Let's say the value of benefits after the purchase of military service is \$165,200.
- The calculation method now simply takes the difference between these 2 amounts to arrive at a cost of \$42,700 (\$165,200 minus \$122,500). In this example the member has a salary of \$50,000, so this represents 85.4% of his salary!

### Example 2

Now let's look at the same member as in Example 1, but after he has continued to work for another 6 months.

- The member is now 57- $\frac{1}{2}$  years old, with 27- $\frac{1}{2}$  years of creditable service. Adding the age and service together, the member is now eligible for unreduced benefits under the Rule of 85.
- The calculation method for determining the cost to purchase the service will now determine the value of this benefit, and will include the fact that the member can retire with unreduced benefits. Let's suppose that value is \$156,800.
- Finally, the calculation method looks at the value of the benefit after the purchase. If we assume this value is \$166,800 (slightly higher than the \$165,200 in the first example since the member has another  $\frac{1}{2}$  year of service), then the cost to purchase the 1- $\frac{3}{4}$  years of service would be \$10,000 (\$166,800 minus \$156,800). This represents 20% of the \$50,000 salary – much less than 85.4%.

## 2001 FEDERAL TAX LAW CHANGES

Members should note that the Economic Growth and Tax Relief Reconciliation Act made many changes to federal tax laws in 2001. For example, the Act contained tax rate reductions, changes to tax credits (such as the earned-income credit, the adoption credit, and the child tax credit), changes to allowable contributions to Individual Retirement Accounts (IRAs), and changes to the deduction for student loan interest. As you prepare your 2001 federal income tax returns, it may be helpful for you to review the Internal Revenue Service's Publication 553 ("Highlights of 2001 Tax Changes"). This publication is available on the IRS's website at [www.irs.gov](http://www.irs.gov).

## PERF LEGISLATION CONSIDERED IN 2002 GENERAL ASSEMBLY

Like most years, there were a number of bills introduced in the state legislature related to the activities of PERF. Bills were introduced pertaining to vesting requirements, cost-of-living adjustments, PERF investments in venture capital, and many other topics. However, one bill each year receives most of our attention and that is the PMOC Bill. The Pension Management Oversight Commission (PMOC) deliberated last summer on a number of issues and Senate Bill 59 is the culmination of those discussions.

Senate Bill 59, which deals with various PERF and Teachers' Retirement Fund (TRF) administrative issues, passed both chambers of the Indiana General Assembly, and now awaits the Governor's signature. The bill would make a number of changes affecting PERF, including the following:

- It would liberalize rollover distributions and trustee-to-trustee transfers to PERF as permitted by the federal Economic Growth and Tax Relief Reconciliation Act of 2001.
- These changes would allow PERF to accept, on behalf of any active member, a rollover distribution from:
  1. A qualified plan described in Section 401(a) of Section 403(a) of the Internal Revenue Code;
  2. An annuity contract or account described in Section 403(b) of the Internal Revenue Code;
  3. An eligible plan maintained by a state or a political subdivision under Section 457(b) of the Internal Revenue Code; or,
  4. An individual retirement account or annuity.

Any account amounts rolled over under these provisions would be accounted for in a "rollover account" established by the member.

- The bill would allow PERF members to purchase at actuarial cost certain additional service credit. A PERF member who has earned at least 10 years of service in a position covered by PERF or TRF would be allowed to purchase one year of service for each five years of service that the member has completed in a position covered by PERF or TRF. The bill would allow the State or political subdivision to pay all or a part of a member's contribution to purchase the additional service credit.
- The bill permits the pooling of the assets of PERF and TRF for investment purposes (while retaining separate ownership and separate accounting for Fund assets).

**MEMBER UPDATE**  
*APRIL 2002*

HARRISON BUILDING  
143 WEST MARKET STREET  
INDIANAPOLIS, INDIANA 46204

1-888-526-1687 TOLL-FREE  
(317) 233-4160 HEARING IMPAIRED

WWW.PERF.IN.GOV

***RIPEA FOUNDATION SEEKS SUPPORT  
FROM ACTIVE PERF MEMBERS***

The Retired Indiana Public Employees Association (RIPEA), which now has a membership of approximately 25,000 retired state and local government employees, established a Foundation in 1995 to provide grants of assistance to PERF retirees who have special needs.

To date, donations to the Foundation have mainly originated from RIPEA members. Active members of PERF may also wish to provide support through gifts, pledges, placing codicils in wills, or otherwise providing support for the RIPEA Foundation. While the Foundation is in its beginning stages, it did provide 15 grants in 2001 to assist retirees with their special needs.

Also, please note that all public employees who are 60 years of age or over may enroll in courses for credit at IvyTech State College and Vincennes University without the payment of tuition. The RIPEA Foundation will pay for the enrollees' books and other special fees for such courses if the student becomes a RIPEA member.

To obtain a brochure about the Foundation's purposes and objectives, or to have questions answered, please contact the Foundation at:

RIPEA FOUNDATION  
3530 SOUTH KEYSTONE AVENUE  
SUITE 305  
INDIANAPOLIS, IN 46227

*or*

TELEPHONE (317) 257-5588

**BOARD OF TRUSTEES**

JONATHAN BIRGE  
Chair

NANCY K. TURNER  
Vice Chair

RICHARD T. DOERMER  
Trustee

TERESA GHILARDUCCI  
Trustee

STEVEN MILLER  
Trustee

**EXECUTIVE STAFF**

E. WILLIAM BUTLER  
Executive Director

DIANN CLIFT  
Director of Information Technology

PATRICIA GERRICK  
Chief Investment Officer

EDWARD GOHMANN  
Fund Counsel

PATRICK W. LANE  
Director of Communications

DOUGLAS A. MILLS  
Chief Financial Officer

JAMES OSBORN  
Programs Director

R. THOMAS PARKER  
Director of 1977 Police Officers' and  
Firefighters' Fund

W. KEVIN SCOTT  
Chief Benefits Officer

KENNETH STOUGHTON  
Director of Human Resources